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Pe[illegible]t Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

LeBon leaving Wilshire

Doug LeBon, vice president of the special investment group at Wilshire Associates, is leaving. Sources said he and at least one other Wilshire consultant will be associated with former Treasury Secretary William E. Simon in the venture capital field.

Freeman quits First Boston

James Freeman — former chairman and chief executive officer with First Boston Asset Management Corp. — resigned Nov. 14. Mr. Freeman oversaw First Boston Asset; CSFB Investment Management Group; CS Global Fund Managers; and a new group in Australia.

Panel revises target dates

The U.S. Working Committee of the Group of Thirty urged 1993 as the new date for the country's implementation of proposals on clearance and settlement of securities transactions.

The recommendations — to reduce the period for settling trades to three business days and to effect settlements only by electronic book entry — had effective dates of 1992 and 1995.

NYC fund taps PanAgora

The Teachers Retirement System, part of the $18 billion New York City Retirement System, hired PanAgora Asset Management to manage $340 million in its South Africa-Free Asset Allocation Fund.

Record keeper picked

John Hancock Mutual Life Insurance Co.'s $1.3 billion group pension separate account portfolio chose Investors Bank & Trust Co., Boston, to perform custody, fund accounting and portfolio valuation.

INSIDE

Illustration by Douglas Klauba

The decision that hurts

Many sponsors' decisions to exclude cash from an active equity manager's benchmark hinders the bogey's effectiveness in determining manager skill and controlling aggregate portfolio risk. See Commentary, page 14.

Firms overhaul retiree health plans

FASB prompts program checkups

By Hillary Durgin

WASHINGTON — Companies such as Procter & Gamble Co., Ball Corp., FMR Corp. and The Vons Cos. Inc. are revamping their retiree medical programs, in part as a way to anticipate the FASB's new accounting rules, but also to place a limit on their potential liability.

"The whole FASB thing is just requiring employers to take the temperature," said Lance Tane, partner at Kwasha Lipton, Fort Lee, N.J. "Whether or not you take the temperature, the pot is boiling over. The liability is there."

Within the next two weeks, the Financial Accounting Standards Board, Stamford, Conn., is expected to sign off on a landmark regulation that could transform corporate balance sheets into potential mine fields.

The new accounting rule, which would force employers to recognize the cost of providing future retiree medical benefits on their income statements, comes at a particularly difficult time, as many corporations' earnings already are on the skids. Now, more than ever, companies are reluctant to plunk a liability on their bottom line.

As corporations examine how to put a lid on liabilities that could wipe out earnings, many are discovering they must re-evaluate and, in some cases, define for the first time the philosophy underpinning their total retirement package.

Under the new rule expected to take effect in 1993, companies will have to expense the amount of retiree medical benefits that employees earn each year. In addition, companies must amortize the cost of benefits already earned when the rule goes into effect.

One key change from the FASB initial draft of the regulation will permit employers to take into account future plan changes when measuring their promise, said Murray Akresh, director in the actuarial and benefits group at Coopers & Lybrand, New York. Previously, the draft only allowed employers to account for the written terms of the plan.

"This is probably the biggest change in the exposure draft that the FASB is making," Mr. Akresh said.

Employers can anticipate future changes — which would include any adjustments in retiree contribution levels or employee deductibles — provided they can demonstrate a consistent approach toward their cost-sharing policy, Mr. Akresh said.

As employers scrutinize their benefit promises and figure out what they owe, many companies are finding their retiree benefits are rich. Not only do some companies provide the same, high-price benefits to short-service workers as to career employees, but also, in some cases, employers have found their post-retirement medical plans favor their retired over active workers, consultants said.

See **FASB** *on page 36*

Realty debt now equity for lenders

By Terry Williams

Pension fund investors in the Pension Realty Income Trust A, a closed-end commingled fund, started out as lenders but ended up as property owners when eight of the 11 participating mortgages it wrote had to be foreclosed on.

The fund is being liquidated and the investment objective — a 4% real rate of return when the fund was conceived — has been lowered to 1%, according to Dale Gruen, vice president and asset manager with Piedmont Realty Advisors, San Francisco. Piedmont is asset manager for the fund.

A majority of the portfolio properties are in the Southwest — Texas and Oklahoma — and 60% are suburban office buildings, according to Piedmont officials.

The foreclosures reflect the real estate problems that occurred in the Southwest in the mid-1980s. The fund's ability to liquidate will be hampered by the lack of demand for suburban office space in that part of the country.

Investors in the trust include the pension funds of the Chicago Transit Authority, Chicago; Duke Power Co., Charlotte, N.C.; E-Systems Inc., Dallas; Houston Industries Inc., Houston; Potomac Electric Power Co., Washington; and Savannah Food and Industries Inc., Savannah, Ga.

The price per unit trust was $500,000, and the group trust had a $37.5 million capitalization, said Mr. Gruen.

The $945 million Chicago Transit Authority fund was the largest investor with $15 million, or 40%

See **Realty** *on page 38*

Photo courtesy of Mexican Ministry of Tourism

The peacefulness of Las Hadas, Mexico, belies the excitement investors feel about the Mexican market.

Mexico's allure mounts

Chance for pension reform draws investors' attention

By Margaret Price

The possibility that Mexico will start a mandatory pension system as early as next year is making the Mexican stock market, already attractive to some institutions, more alluring.

A number of U.S.-based institutional investors, among them GE Investments, Capital Research International and Intervest Corp., have raised their exposures to the Mexican market. A few others, such as BEA Associates Inc., maintain relatively sizable weightings in Mexico. The United Nations Joint Staff Pension Fund has been investing in the Mexican market since the early 1980s, and now has about $25 million invested, or 0.3% of its assets.

Impressive economic improvements in Mexico, coupled with the November 1989 liberalization of investing rules for foreigners, have spurred interest. But even more attractions may lie ahead: If Mexico does establish new pension funds — and government announcements on the issue are expected early next year — the development will further fuel the stock and bond markets, experts say. One key reason is that Mexico's pension funds may only invest domestically.

The government is now studying the possibility of establishing a pension system based at least partly on one set up about five years ago in Chile. In Chile, employees put a certain amount of earnings into funds managed by outside money managers of their choosing.

See **Mexico** *on page 34*

NEWS DIGEST

Why is Dan O'Sullivan smiling? The president and CEO of ULLICO is reaping the rewards of new business thanks to the creation of a separate account subsidiary and the expertise of Cashman, Farrell and Associates. See page 30.

Philadelphia's retirement system could play a role in the city's financial recovery by purchasing a portion of a non-investment-grade bond issue. Page 4.

Georgia-Pacific is seeking Labor Department approval to buy $5.3 million of GICs from its defined contribution plans. Page 6.

SPECIAL REPORT: PIPER

Fixed-income commingled funds top equity pools and provide investors with a haven during turbulent economic times. Page 17.

Median real estate returns are flat and the indications are that 1990 may be among the worst years for performance of property investments. Page 17.

FINANCING

The need for capital in many European markets has drawn the interest of U.S. insurance companies and financial service firms. Page 2.

A weakening economic picture is forcing corporations to conserve cash and redeem debt. Page 28.

INTERNATIONAL

The Mexican stock market, already alluring to many institutional investors, may get a further boost from the country's government. Page 1.

U.S. endowments and foundations have targeted as much as 20% of assets for foreign investing. Page 3.

REAL ESTATE

Pension fund investors in the Pension Realty Income Trust A closed-end fund started as lenders but now are owners. Page 1.

First National Bank of Chicago has filed suit against the Office of the Comptroller of the Currency, the fourth suit involving the bank's Fund F. Page 26.

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Scoreboard questionnaires out

Work has begun on *Pensions & Investments'* annual Money Manager Scoreboard. Questionnaires have been mailed and must be returned by Dec. 31 to be included in the rankings. If your investment management firm has not yet received a questionnaire, or if you have questions on it, contact Christine Philip, directory coordinator, at (312) 649-5217.

Steel termination looms

CF&I in Chapter 11; plan underfunded by $140 million

By Trudy Ring

PUEBLO, Colo. — CF&I Steel Corp. plans to seek termination of a pension plan underfunded by $140 million, a move that may not meet with approval from the Pension Benefit Guaranty Corp.

CF&I filed a petition Nov. 7 for reorganization under Chapter 11 of the Federal Bankruptcy Code, citing its unfunded pension liability and continued weak markets for its products, which include railroad rails and seamless pipe for oil and gas.

The filing suspends all payments to the pension plan, which has assets of about $50 million and liabilities of $190 million. CF&I officials said the company had made all required contributions to the plan on time and in full except for a special payment of $12.3 million due in September 1990 and a quarterly payment of $1.8 million due in October 1990.

In 1982 and 1983, the company cut its operations significantly, reducing its work force to about 2,000 from 6,000, a spokesman said. He didn't have a figure on how many workers joined the retiree rolls, but said the company did have a dramatic increase in the number of retirees.

If the company terminates the plan, it would be the fourth largest underfunded termination to come to the PBGC, a spokeswoman for the pension insurance agency said. The largest was Wheeling-Pittsburgh Steel Corp., underfunded by $500 million, followed by Kaiser Steel Corp., $220 million, and Allis-Chalmers Corp., $175 million.

(The PBGC had involuntarily terminated three LTV Corp. plans, with about $2 billion in unfunded liabilities, but those plans have been restored to the company.)

The PBGC has been monitoring CF&I's situation and talking to company officials about their responsibilities for the unfunded liabilities, the spokeswoman said. Although the company began talking with the PBGC in 1987, it has not shown that a termination is warranted and has not taken any steps to improve its situation, she said.

The company spokesman declined to respond to the PBGC's comments.

The company has not yet applied to the PBGC for termination, the spokeswoman added. Besides the PBGC, CF&I must have approval from the United Steelworkers of America, which represents many of its employees, to terminate the plan.

Epie Martinez, financial secretary of Steelworkers Local 2102, Pueblo, which represents 1,500 CF&I workers, declined comment on the union's position. ■

HUD Secretary Jack Kemp wants to tap pension fund assets to help provide Americans with affordable housing alternatives.

Ease ERISA rules for housing: Kemp

By Joel Chernoff

WASHINGTON — Housing and Urban Development Secretary Jack Kemp has asked Labor Secretary Elizabeth H. Dole to permit private pension funds to accept a below-market rate of return on investments in mortgage-backed securities.

In a Nov. 5 letter, Mr. Kemp, a strong advocate of affordable housing, embraced a proposal by the New York City Housing Partnership that would enable local pension funds to provide $100 million in below-market financing for low- and moderate-income families.

"What really strikes me, however, is the implications of such an effort nationwide," Mr. Kemp wrote. "With an estimated $2 trillion in pension funds, access even to a relatively small portion of this amount for use in securing residential mortgages in combination with other means of lowering final housing costs to prospective homeowners would result in a dramatic increase in the affordability of housing for families."

Mr. Kemp's request, which would involve changing rules affecting loans to plan participants, probably will remain dormant until a new labor secretary is named by President Bush. Ms. Dole left the Labor Department Nov. 23 to become president of

See **Housing push** *on page 39*

U.S. offers new capital for Europe

By Marcia Parker

LONDON — A handful of U.S. insurance companies and other U.S. financial service firms are quietly setting up shop or expanding operations in Europe to provide alternative capital sources.

The players include affiliates of General Electric Co., Westinghouse Corp., Equitable Life Assurance Society of the United States and Prudential Life Insurance Co. of America.

They are getting a toehold in Europe at a time when the need for capital to propel growth is substantial. Many European companies are diversifying capital sources and consider the private U.S. capital as a viable long-term alternative.

In addition, two of them, Equitable and Prudential, plan to expand into international money management in the future.

These operations do not yet contribute heavily to the bottom line of the U.S. parent, but analysts say they appear to be profitable and are expected to do well in the years ahead. The parent companies don't break out financial data for these businesses, making it hard to assess exactly how they are doing.

"The European operation is a small portion of their business. But it's where the growth is," said Richard Schmidt, vice president, Standard & Poor's Corp., New York. "They are starting small and sizing up the market."

Searching for opportunities to boost returns, the U.S. institutions are diversifying globally with the world's capital markets. Even though the worldwide economic slowdown is hampering them and their competitors to some extent, they say they are making headway.

GE Capital Europe, Westinghouse International Capital Ltd., P.I.C. Europe and E.C. Capital

See **European offices** *on page 38*

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Equity ■ Balanced ■ Fixed Portfolios

Philadelphia fund may aid city bailout

By Terry Williams and Trudy Ring

The City of Philadelphia Municipal Pension Fund will purchase non-investment-grade securities issued by the city as part of Philadelphia's $250 million financial recovery plan — if an outside attorney determines it is a prudent investment.

The City Council last week passed by a 10-7 vote an ordinance permitting the pension fund to invest in non-investment-grade securities.

Meanwhile, in Illinois, the state Senate has approved an amended bill that allows the Chicago Board of Education to divert pension property tax levies to cover teachers' raises. The amended version is without provisions, contained in the original legislation, that would have the state take over funding of Chicago teachers' pensions and improve early retirement benefits for both Chicago and downstate teachers.

The state House of Representatives is expected to vote on the legislation the last week in November.

The Philadelphia pension fund hired fiduciary legal expert Ian Lanoff of the Washington law firm of Bredhoff & Kaiser for the due diligence, according to Tina Poitevien, chief investment officer of the $1.6 billion fund.

Mr. Lanoff's opinion is due in the next few weeks, said David Volpe, a spokesman for City Comptroller Jonathan Saidel.

Several figures have floated around about what portion of the offering the pension fund will buy, with $62.5 million the most often quoted figure, according to Ms. Poitevien.

"To the extent that this would be a prudent investment, the amount would be determined by the due diligence," she said.

Philadelphia Mayor W. Wilson Goode announced in September the city would be broke by Dec. 1 after an attempt to sell $375 million of short-term notes failed.

In Illinois, legislation allowing the Chicago property tax diversion and also raising early retirement benefits and giving the state responsibility for funding of the Public School Teachers' Pension and Retirement Fund of Chicago had been approved several months ago. However, Gov. James Thompson, through his amendatory veto power, removed the early retirement and state funding provisions of the bill and sent it back to the Legislature.

The major objections to those provisions were the cost, estimated at $129 million a year, and the state's assumption of $1.4 billion in unfunded liabilities for the Chicago teachers' pension system, said James J. Ofcarcik, manager of long-term debt analysis for the Illinois Economic and Fiscal Commission. ■

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CORRECTIONS & CLARIFICATIONS

- **MIG Cos.** was identified incorrectly in the story in the *Pension Funds and Shopping Centers* supplement in the Nov. 12 issue.
- The drop in master trust and master custodial assets for **Bank of New York** reported in the Oct. 1 story was incorrect. The bank experienced a 1.6% drop in those assets. Also, the client contacts were misidentified: William Barron handles master custodial inquiries and Curtis Yamaoka and Janet Zaloom handle global custody.
- The amount of total discretionary tax-exempt assets listed for **The Equitable** in the chart listing the largest insurers in the May 21 issue was incorrect. Equitable had $77.68 billion at year-end 1989.

PIPER fixed-income funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	2.47%	10.52%	12.64%	12.89%	15.53%
First quartile	1.84	8.40	10.43	10.20	12.47
Median	1.18	7.41	9.65	9.55	11.76
Third quartile	0.62	6.33	9.11	8.89	11.35
Lowest return	-10.92	-9.45	2.34	4.50	9.34
SLB G/C	**0.60**	**6.75**	**10.25**	**10.00**	**12.41**

PIPER equity funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	-2.15%	8.30%	9.61%	21.02%	22.86%
First quartile	-11.42	-5.41	3.39	14.87	14.94
Median	-13.66	-9.29	1.96	13.38	13.64
Third quartile	-15.56	-13.30	0.28	11.61	12.20
Lowest return	-25.46	-32.31	-8.16	1.85	7.12
S&P 500	**-13.86**	**-9.35**	**1.80**	**14.80**	**13.98**

PIPER special equity funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	-3.00%	1.48%	11.02%	25.97%	17.12%
First quartile	-17.74	-13.00	2.40	13.53	13.64
Median	-20.18	-18.81	-1.60	9.44	11.49
Third quartile	-23.36	-23.44	-4.44	7.17	9.85
Lowest return	-29.47	-38.57	-15.24	1.85	4.86
S&P 500	**-13.86**	**-9.35**	**1.80**	**14.80**	**13.98**
Russell 2000	**-24.54**	**-27.15**	**-7.58**	**4.50**	**8.75**

A haven from the storm

Fixed income weathers turbulent economic climate

By Fred Williams

Amid signs of a weakening economy, the declining dollar and recessionary fears, fixed-income funds fared better than equity funds for the year ended Sept. 30, according to Pensions & Investments' Performance Evaluation Report.

Median fixed-income funds in the PIPER and PIPER+ universes outperformed median equity funds in the third quarter and for the 12-month period. Median equity returns for both periods had negative returns as the stock market continued its downward spiral after peaking in July.

The median PIPER fixed-income return was 1.18% for the third quarter and 7.41% for the year. Similarly, the median PIPER+ fixed-income manager returned 1% and 7.1%, respectively.

The Shearson Lehman Brothers Government/Corporate Bond Index returned 0.6% for the third quarter and 6.75% for the 12 months.

By contrast, the median PIPER equity manager returned -13.66% for the quarter and -9.29% for the year. The median PIPER+ equity return was -15.32% and -11.53% for the same periods. The Standard & Poor's 500 Stock Index returned -13.86% and -9.35% respectively.

The PIPER universe represents the commingled funds of banks and insurance companies; the PIPER+ universe represents the accounts of independent advisers. Both universes are compiled by Rogers, Casey & Associates, Darien, Conn. All returns for periods of more than one year are compound annualized.

The PIPER fixed-income funds reflected the uncertainty in the financial markets and the flight to quality as the top performing funds tended to focus on higher quality instruments and shorter maturities.

Shearson Trust Co., Wilmington, Del., had two bond funds in the top decile of the PIPER fixed-income universe for the quarter, including the top fund — Income Fund No. 1 at 2.47% — and Income Fund No. 2 with 2.23%.

Shearson Trust was followed by First National Bank of Maryland, Baltimore, with a return of 2.46%, and the F1 Reserve Fund of Chancellor Capital Management, New York, with 2.41%.

General American Life Insurance Co., St. Louis, finished the quarter in fourth with a return of 2.4% on its separate account No. 6, and placed in the top five for the one-, three- and five-year periods.

The American General fund consists primarily of commercial mortgage loans, generated by the company's own network of offices around the nation.

Tom Brackett, pension marketing director, said the $83 million fund contains mortgages of five- to 10-year of fixed and variable rates in 11 states. He said the average loan is $600,000 to $700,000 involving multiuse properties such as shopping centers, offices, warehouses and light industrial uses. The portfolio has an average duration of 4.7 years and the average life of the loan is about 7 years.

"We don't loan more than 75% of the assessed valuation on the property," he said. The average is about 67%. "The theory behind

See **Stormy** *on page 23*

Outlook is bleak for pooled real estate fund returns

By Steve Hemmerick

Median investment returns for pooled institutional real estate funds are already flat in 1990, and the latest numbers indicate this year might be one of the worst for real estate performance.

Pensions & Investments' Performance Evaluation Report shows the median open-end real estate fund returned only 1.24% for the second quarter of 1990; for the first half of the year the median return was 2.46%. For closed-end funds, the median fund returned 1.6% for the quarter and 3.2% for the first six months.

If the performance trend for real estate commingled funds continues as expected, the median open-end real estate return could be a little above 5% for calendar year 1990, consultants predict.

The consultants add the United States appears to be moving into a recession, which could further dampen property returns.

The economic slowdown already is punishing some real estate, according to Paul Saint-Pierre, president of the San Francisco-based real estate consulting firm Pension Realty Advisors.

A 5% to 5.5% return for calendar year 1990 would be up to 360 basis points less than the median return of 8.6% for open-end funds in 1989. The lowest calendar year median return for open-end funds during the 1980s was 7.6% in 1987.

Some real estate consultants think closed-end funds could score a median return of 5% to 6% for calendar year 1990, below the median 7.4% for 1989 and the median 7.1% for 1987, the low for the 1980s.

While there are exceptions for individual pooled funds, neither of the top performing funds for the second quarter of 1990 are typical of the core real estate pension executives hold.

The top open-end fund for the second quarter was the Union Mortgage Account of Prudential Realty Group, Newark, N.J., with 3.5%. But the $138 million fund holds no equity real estate and invests only in straight mortgages.

The ForesTree I fund of John Hancock Timber Resource Group, Boston, had the best return in the second quarter for closed-end funds at 11.9%. But the fund is small — $17 million — and invests solely in timberland, which most pension trustees call a niche investment.

The two largest commingled funds for institutional investors — Equitable Real Estate Investment Management Inc.'s $3.7 billion Prime Property Fund and Prudential Realty Group's $3.5 billion PRISA fund — both returned 1.8% for the second quarter, finishing in the top third.

In the first half of 1990, four open- and four closed-end funds reported negative performance, the lowest returning -7.47%.

Nori Gerardo, a consultant with Pension Consulting Alliance, Glendale, Calif., said she does not see a "significant differential" between open- and closed-end fund returns.

Because of the weakening economy, landlords generally are not going to see increases in rent, said Mr. Saint-Pierre. With many businesses trying to cut costs, rent, which is negotiable, is one of the places to be targeted, he said. Without growth in rents, there is little likelihood for any significant appreciation in real estate.

With little or no appreciation, the only return investors receive from property investments will come through income.

Thousands of employees are being laid off from their jobs, which particularly hurts the office sector, he said. Other real estate segments, especially retail properties, also could suffer from the likely drop in consumer spending.

See **Real estate** *on page 24*

PIPER+ fixed-income funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	3.35%	11.02%	13.45%	15.31%	16.02%
First quartile	1.70	6.12	10.54	10.78	13.35
Median	1.00	7.10	9.83	10.23	12.65
Third quartile	0.40	5.80	8.94	9.40	11.99
Lowest return	-7.50	-3.77	5.93	7.61	10.01
SLB G/C	**0.60**	**6.75**	**10.25**	**10.00**	**12.41**

PIPER+ equity funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	0.12%	20.60%	39.67%	25.96%	24.98%
First quartile	-12.42	-6.74	4.00	15.67	16.83
Median	-15.32	-11.53	2.08	13.96	14.80
Third quartile	-18.15	-16.14	-0.40	11.65	13.27
Lowest return	-33.91	-33.32	-10.52	3.18	6.56
S&P 500	**-13.86**	**-9.35**	**1.80**	**14.81**	**13.98**

PIPER+ special equity funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	32.56%	103.98%	52.12%	41.28%	18.68%
First quartile	-5.98	-5.78	-5.50	12.85	12.85
Median	-10.60	-8.52	3.76	8.54	11.75
Third quartile	-13.63	-12.46	0.22	7.26	11.22
Lowest return	-27.20	-25.68	-9.65	3.96	10.27
S&P 500	**-13.86**	**-9.35**	**1.80**	**14.81**	**13.98**
Russell 2000	**-24.54**	**-27.15**	**-7.58**	**4.50**	**8.75**

PIPER+ global funds
(periods ended Sept. 30)

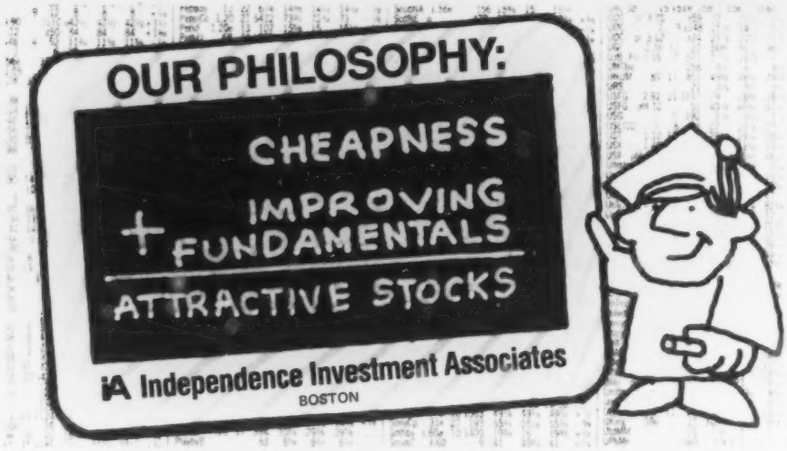
	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	-13.40%	-1.43%	9.98%	26.08%	21.26%
First quartile	-16.12	-8.92	1.46	19.53	17.01
Median	-17.27	-12.11	-0.65	16.90	15.75
Third quartile	-18.76	-15.42	-2.44	15.88	14.38
Lowest return	-23.49	-27.64	-6.18	10.79	14.33
FTA World	**-18.50**	**-22.08**	**-2.36**	**16.42**	**na**
MSCI World	**-18.13**	**-21.10**	**-2.27**	**16.51**	**14.44**

PIPER+ international funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	-11.35%	4.60%	9.05%	45.57%	24.66%
First quartile	-16.93	-9.38	2.10	22.89	18.06
Median	-18.71	-13.27	0.06	21.43	17.01
Third quartile	-20.59	-17.12	-2.53	19.92	15.92
Lowest return	-25.90	-41.33	-8.76	12.08	13.72
FTA EuroPac	**-21.53**	**-28.51**	**-4.23**	**19.26**	**na**
MSCI EAFE	**-21.12**	**-27.40**	**-3.99**	**19.61**	**16.12**

PIPER+ balanced/TAA funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	2.71%	11.52%	12.87%	20.29%	20.76%
First quartile	-2.67	2.92	8.13	14.75	15.68
Median	-6.35	-0.72	6.33	13.15	14.24
Third quartile	-8.30	-3.53	4.71	11.77	13.33
Lowest return	-23.17	-17.31	-3.11	6.18	10.79



Top decile PIPER commingled fixed-income funds

3-month returns

	%
Shearson Trust (IF1), Del.	2.5
First Nat'l of Maryland	2.5
Chancellor Capital (Reserve)	2.4
General American (S.A. 6), Mo.	2.4
IAA Trust (Gov't G), Ill.	2.4
Chase-CMB (Short-interm.), N.Y.	2.4
New York Life (S.A. 5)	2.3
Dauphin Deposit (Short term), Pa.	2.3
Ameritrust (Reserve), Ohio	2.3
Comerica (Interm.), Mich.	2.3
Star Bank (Interm.), Ohio	2.3
Texas Commerce (Ltd. term)	2.3
Dominion Trust (Stable cap. B), Va.	2.2
AmSouth (Ltd. mat.), Ala.	2.2
Shearson Trust (IF2), Del.	2.2
First Interstate of Okla. (Interm.)	2.2
Southeast Bank, Fla.	2.2
Prudential (Struc. mat.), N.J.	2.2
Mercantile Safe (Interm.), Md.	2.2
Bankers Trust (GIC), N.Y.	2.2
Valley Fidelity, Tenn.	2.2
Signet Trust (Stable value), Va.	2.1
IDS Trust (GIC), Minn.	2.1
Crestar Bank (Short term), Va.	2.1
American Nat'l Bank, Ind.	2.1
SLB G/C	**0.6**

1-year returns

	%
First Nat'l of Maryland	10.5
First Florida Bank	10.3
General American (S.A. 6), Mo.	10.2
Mercantile Safe (Interm.), Md.	9.8
Bankers Trust (Mtg. passthru)	9.8
SW Nat'l Bank of Pennsylvania	9.7
AmSouth (Ltd. mat.), Ala.	9.7
Chase-CMB (Sec. mtg.), N.Y.	9.6
Chase-CMB (Short-interm.), N.Y.	9.4
Prudential (Struc. mat.), N.J.	9.4
Ameritrust (Reserve), Ohio	9.4
IAA Trust (Gov't G), Ill.	9.3
Wellington Trust (Interm.), Mass.	9.3
Shawmut Bank (Interm.), Mass.	9.2
Dominion Trust (Stable cap. B), Va.	9.2
First Interstate of Okla. (Interm.)	9.1
Comerica (Interm.), Mich.	9.1
Continental (Interm.), Ill.	9.1
Valley Fidelity, Tenn.	9.1
New York Life (S.A. 5)	9.1
Star Bank (Interm.), Ohio	9.1
Crestar Bank (Short term), Va.	9.1
Dauphin Deposit (Short term), Pa.	9.1
IDS Trust (GIC), Minn.	9.0
Central Fidelity (Short term), Va.	8.9
SLB G/C	**6.8**

5-year returns

	%
Transamerica (S.A. T2), Calif.	12.9
Meridian, Pa.	12.7
United Capital, Colo.	12.5
General American (S.A. 9), Mo.	11.7
Prudential (Long term), N.J.	11.7
Beverly Trust, Ill.	11.7
Equitable Capital (No. 5), N.Y.	11.6
The Principal, Iowa	11.5
Chase-CMB (Long term), N.Y.	11.5
IAA Trust (B), Ill.	11.5
Boatmen's Trust (F), Mo.	11.5
Connecticut Nat'l Bank	11.4
Bankers Trust (Mtg. passthru)	11.4
Union Bank (Long term), Calif.	11.4
Sunburst Bank, Miss.	11.4
LaSalle Nat'l (Gov't corp.), Ill.	11.4
General American (S.A. 6), Mo.	11.3
First Nat'l of Amarillo, Texas	11.3
Harris Trust, Ill.	11.2
Crown Life (U.S.), Ontario	11.0
Pacific Financial, Calif.	11.0
Morgan Guaranty, N.Y.	11.0
Aetnal Life (Shares), Conn.	10.9
SLB G/C	**10.0**

10-year returns

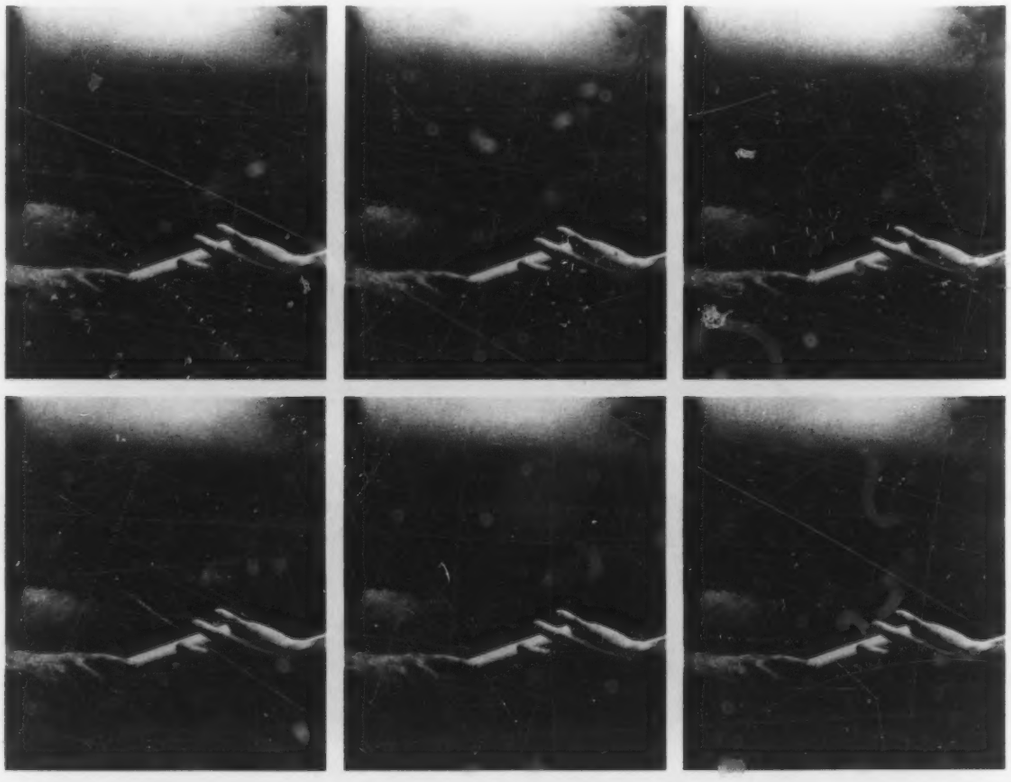
	%
Transamerica (S.A. T2), Calif.	15.5
Meridian, Pa.	14.8
United Capital, Colo.	14.3
Sovran Capital, Va.	14.0
Beverly Trust, Ill.	13.8
First Kentucky Trust	13.7
Life of Virginia	13.7
Connecticut Nat'l Bank	13.6
Boatmen's Trust (F), Mo.	13.6
IAA Trust (B), Ill.	13.5
Pacific Financial, Calif.	13.4
First Nat'l of Amarillo, Texas	13.4
First Interstate of Calif. (Mgd.)	13.4
First Variable Life, Ark.	13.4
ASB Capital, D.C.	13.3
Society Nat'l, Ohio	13.2
SLB G/C	**12.4**

Top decile PIPER commingled equity funds

3-month returns

	%
The Phoenix, Conn.	-2.2
SW Nat'l Bank of Pennsylvania	-2.9
Beverly Trust, Ill.	-5.4
Weststar Bank, Okla.	-5.7
United Carolina Bank, N.C.	-6.2
First Wisconsin (Portico & gro.)	-7.4
Assoc. Manitowoc, Wis.	-7.4
Nat'l Westminster Bank, N.J.	-7.6
Summit Bank, Ind.	-7.6
Columbus Bank, Ga.	-8.3
Penn Mutual Life (S.A. D), Pa.	-8.4
First of America, Mich.	-8.8

We Are What We Repeatedly Do. Excellence Then Is Not An Act But A Habit. *Aristotle*



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United Missouri	−8.8
Midlantic (Inc.), N.J.	−8.9
First Nat'l of Litchfield (B), Conn.	−9.0
Provident Mutual (S.A. 1), Pa.	−9.1
Wilmington Trust (Total ret.), Del.	−9.1
Employer Life/Wausau (S.A. 1)	−9.2
Fifth Third Bank-Miami, Ohio	−9.3
Dominion Capital (Corp.), Va.	−9.4
Jefferson Nat'l Bank, Va.	−9.4
Sovran Capital, Va.	−9.5
Bank of Tokyo, N.Y.	−9.6
Johnson County Bank, Kan.	−9.7
Assoc. Bank-Neenah (I), Wis.	−9.7
Stock Yards Bank, Ky.	−9.7
First NH Invst. (A)	−9.8
Aliac (Variable), Conn.	−9.8
S&P 500	**−13.9**

1-year returns

	%
The Phoenix, Conn.	8.3
Princeton Bank, N.J.	6.5
SW Nat'l Bank of Pennsylvania	3.5
Commercial Capital (Sp. gro.), Ark.	2.4
Bank One Wis. Trust (Growth)	0.7
United Carolina Bank, N.C.	0.7
Assoc. Manitowoc, Wis.	0.4
Chancellor Capital (Sel. gro.)	0.3
Beverly Trust, Ill.	0.2
Weststar Bank, Okla.	−0.4
Commercial Capital, Ark.	−0.7
Mercantile Bank Joplin (Gro. C)	−0.8
Chicago Title & Trust	−0.9
American Nat'l Bank, Ind.	−1.0
First City Texas, Houston (A/1)	−1.4
Aliac (Variable), Conn.	−1.4
Commerce Bank, Mo.	−1.6
First Wisconsin (Portico & gro.)	−1.6
Great West (VAAA), Manitoba	−1.6
Summit Bank, Ind.	−2.1
The Phoenix (Growth S), Conn.	−2.2
Nat'l Westminster Bank, N.J.	−2.2
Aetna Life (S.A. 2), Conn.	−2.3
First Nat'l of Omaha (D), Neb.	−2.4
Sentry Equity (S.A. B), Wis.	−2.4
Columbus Bank, Ga.	−2.6
Provident Mutual (S.A. 1), Pa.	−2.7
Hibernia Nat'l (G), La.	−2.7
S&P 500	**−9.4**

5-year returns

	%
Chancellor Capital (Sel. gro.)	21.0
Sun Bank, Fla.	20.9
Shearson Trust (EF7), Del.	20.6
Pacific Financial (Sm. cap.)	19.6
IDS Trust (Core), Minn.	19.5
Bank One-Indianapolis (L)	19.3
Assoc. Manitowoc, Wis.	18.4
John Hancock (Divers. 1K), Mass.	17.5
State Street (Matrix syn.), Mass.	17.5
Pacific Financial (Cap. app.)	17.4
First Nat'l Amarillo, Texas	17.1
The Phoenix, Conn.	17.0
First Illinois (Corp.)	17.0
State Bank (C), Ohio	17.0
Southtrust Bank, Ala.	17.0
South Carolina Nat'l	16.9
Pacific Financial (Inc.)	16.9
NCNB Nat'l, N.C.	16.9
Bank One Wis. Trust (Growth)	16.8
Puget Sound Nat'l, Wash.	16.6
Chancellor Capital (Growth)	16.4
Beverly Trust, Ill.	16.4
Chancellor Capital (Indexplus)	16.3
First Illinois (Personal)	16.2
S&P 500	**14.8**

10-year returns

	%
Sun Bank, Fla.	22.9
Pacific Financial (Cap. app.)	20.4
First Nat'l Amarillo, Texas	18.5
Provident Mutual (S.A. 1), Pa.	17.7
First Fidelity (Select value), N.J.	17.1
First NH Invst. (A)	17.1
Merus Capital (Income), Calif.	17.0
First Union Nat'l, N.C.	16.6
Wheeling Dollar (B), W. Va.	16.6
U.S. Nat'l Bank, Texas	16.5
Manufacturers Detroit (E)	16.3
First Nat'l of Omaha (D), Neb.	16.2
Merus Capital (Gro. plus), Calif.	16.1
Lake Shore Nat'l, Ill.	16.1
Connecticut Mutual	16.0
First of America, Mich.	16.0
Aliac (Variable), Conn.	16.0
S&P 500	**14.0**

Top decile PIPER commingled special equity funds

3-month returns

	%
Lincoln Nat'l (Emerg. gro.), Ind.	−3.0
Liberty Nat'l (Growth), Ky.	−4.6
Shearson Trust (EF2), Del.	−7.1
Markston Invst. (V.A. 15), N.Y.	−7.8
Central Fidelity (Growth), Va.	−10.5
Assoc. Kellog (Growth), Wis.	−11.8
First Asset Mgmt. (II), Minn.	−12.4
S&P 500	**−13.9**
Russell 2000	**−24.5**

1-year returns

	%
Chancellor (Emerg. health), N.Y.	1.5
Shearson Trust (EF2), Del.	1.2
Markston Invst. (V.A. 15), N.Y.	1.1
Equitable Capital (Gro. 3), N.Y.	−0.5
Lincoln Nat'l (Emerg. gro.), Ind.	−2.6
Liberty Nat'l (Growth), Ky.	−2.9
Assoc. Kellogg (Growth), Wis.	−3.0
S&P 500	**−9.4**
Russell 2000	**−27.2**

5-year returns

	%
Shearson Trust (EF2), Del.	26.0
Shearson Trust (EF3), Del.	22.1
First City Texas (G/1)	17.8
Connecticut Nat'l Bank	17.1
Putnam Cos. (Growth), Mass.	16.1
S&P 500	**14.8**
Russell 2000	**4.5**

10-year returns

	%
Connecticut Nat'l Bank	17.1
First Asset Mgmt. (II), Minn.	15.7
Norwest Bank, Minn.	15.6
S&P 500	**14.0**
Russell 2000	**8.8**

Top half PIPER commingled international funds

3-month returns

	%
Morgan Guaranty (Bond), N.Y.	6.7
Ameritrust Texas (Bond)	6.6
Citicorp Invst.(Fixed), N.Y.	6.5
Chase-CMB (Fixed), N.Y.	6.4
Global Fixed Income (Glo. yield)	6.1
Global Fixed Income (Bond)	5.3
Global Fixed Income (Glo. bond)	3.5
IAA Trust (Fixed), Ill.	−4.3
Trust Co./West (Global), Calif.	−11.5
Lincoln Nat'l (S.A. 22), Ind.	−13.1
Connecticut Mutual (Overseas)	−13.9
Assoc. Bank-Neenah (World)	−14.0
Boatmen's Trust (Eq. W), Mo.	−14.7
Morgan Guaranty (Equity), N.Y.	−14.9
NCNB Nat'l (Stock), N.C.	−15.7
PCM Int'l (Print 2 equity), N.J.	−16.2
CL Capital (Stock), Ga.	−16.3
Provident Capital (Low p/e), Pa.	−16.6
Putnam Cos. (Equity), Mass.	−16.6
Wellington (Emerg. eq.), Mass.	−16.9
Citicorp Invst. (Equity), N.Y.	−17.0
IDS Int'l (Equity), Minn.	−17.2
MSCI World	**−18.1**
FTA World	**−18.5**
MSCI EAFE	**−21.1**
FTA Europe & Pacific	**−21.5**

1-year returns

	%
Global Fixed Income (Glo. yield)	18.8
Citicorp Invst. (Fixed), N.Y.	18.3
Morgan Guaranty (Bond), N.Y.	16.0
Global Fixed Income (Glo. bond)	11.8
Chase-CMB (Fixed), N.Y.	9.9
Ameritrust Texas (Bond)	9.4
Global Fixed Income (Bond)	7.3
IAA Trust (Fixed), Ill.	1.9
IDS Int'l (Equity), Minn.	−0.4
NCNB Nat'l (Stock), N.C.	−2.0
Lincoln Nat'l (S.A. 22), Ind.	−4.8
Putnam Cos. (Equity), Mass.	−5.3
Wellington (Emerg. eq.), Mass.	−7.0
Travelers Cos. (S.A. W), Conn.	−8.6
CL Capital (Stock), Ga.	−9.0
Trust Co./West (Global), Calif.	−9.1
The Principal (Stock), Iowa	−10.0
PCM Int'l (Print 2 eq.), N.J.	−10.4
Assoc. Bank-Neenah (World)	−10.5
Citicorp Invst. (Equity), N.Y.	−11.4
Wellington (Stock), Mass.	−11.4
Connecticut Mutual (Overseas)	−12.5
MSCI World	**−21.1**
FTA World	**−22.1**
MSCI EAFE	**−27.4**
FTA Europe & Pacific	**−28.5**

5-year returns

	%
Provident Capital (Low p/e), Pa.	24.8
NCNB Nat'l (Stock), N.C.	23.8
Bessemer Trust (E), N.Y.	23.6
Wellington (Pacific Basin), Mass.	22.6
Bankers Trust (Equity), N.Y.	22.5
Putnam Cos. (Equity), Mass.	21.5
Global Fixed Income (Glo. bond)	21.1
CL Capital (Stock), Ga.	20.8
American Nat'l Chicago (Equity)	20.1
Wellington (Stock), Mass.	20.0
IDS Int'l (Equity), Minn.	20.0
Boatmen's Trust (Eq. W), Mo.	20.0
Chase-CMB (EAFE), N.Y.	19.7
MSCI EAFE	**19.6**
FTA Europe & Pacific	**19.3**
MSCI World	**16.5**
FTA World	**16.4**

10-year returns

	%
American Nat'l Chicago (Equity)	15.7
Bankers Trust (Equity), N.Y.	17.3
MSCI EAFE	**16.1**
Citcorp Invst. (Equity), N.Y.	14.8
MSCI World	**14.4**

Top decile PIPER + fixed-income funds

3-month returns

	%
American & European (P-max)	3.4
Income Research (En. cash)	2.7
Smith Breeden Assoc. (Short)	2.5
Longfellow Invst. (Short)	2.5
Capitalcorp (Active 0-5)	2.5
Chase Invst. Counsel	2.4
Wells Fargo Invst. (1-3 yr. gov't)	2.4

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Anhalt/O'Connell (Res. maturity)	2.3
RCM Capital Mgmt. (Short)	2.3
Mass. Financial (Ltd. maturity)	2.3
IDC Portfolio (2 yr. trip)	2.3
IDC Portfolio (5 yr. trip)	2.3
IDC Portfolio (GNMA trip)	2.3
Brundage, Story & Rose	2.2
Reimer & Koger (Stable value)	2.2
Shelby County Gov't	2.2
Pacific Invst. (Low duration)	2.2
IDC Portfolio (3 yr. trip)	2.2
RNC Capital (Govt.)	2.2
SLB G/C	**0.6**

1-year returns

	%
Smith Breeden Assoc. (Short)	11.0
Atlantic Port Analytics (A)	10.0
Income Research (En. cash)	9.9
Pacific Invst. (Low duration)	9.9
STW Fixed Income (Short)	9.8
Longfellow Invst. (Short)	9.8
American Asset Mgmt.	9.5
Reimer & Koger (Stable value)	9.4
Western Asset (Ltd. maturity)	9.4
Standish, Ayer & Wood (Con. risk)	9.4
Pine Tree Capital	9.3
Hoisington Invst.	9.3
Chase Invst. Counsel	9.3
Wells Fargo Invst. (1-3 yr. gov't)	9.3
Davis Hamilton (Inter.)	9.3
Criterion Invst. (Mtg.)	9.2
Neuberger & Berman (Ltd. mat.)	9.2
Chandler & Chambless (Short)	9.2
Shelby County Gov't	9.2
SLB G/C	**6.8**

5-year returns

	%
Bridgewater Asset (Active dur.)	15.3
American & European (P-max)	14.1
Hoisington Invst.	13.8
McKee Invst.	13.5
STW Fixed Income (Long)	13.2
Meridian Invst.	12.7
Wolf Webb Burk/Campbell (Int. rt.)	12.3
Ferguson & Wellman (Int. rate)	12.2
Consistent Asset (Total return)	12.1
Huff Asset Mgmt.	12.1
Dolan Capital Mgmt.	11.9
Trevor Stewart Burton & Jacobson	11.9
Pacific Invst. (Total return)	11.8
Smith Affiliated Capital	11.6
SLB G/C	**10.0**

10-year returns

	%
Smith Affiliated Capital	16.0
Consistent Asset (Total return)	15.2
STW Fixed Income (Long)	15.1
Wolf Webb Burk/Campbell (Int. rt.)	15.0
Western Asset (Active core)	14.9
Greenwich Asset Mgmt.	14.8
Meridian Invst.	14.8
Dolan Capital Mgmt.	14.6
Independence One (PRIMA X)	14.5
SLB G/C	**12.4**

Top decile PIPER + equity funds

3-month returns

	%
Securities Res. (Kemper Summit)	0.1
Securities Res. (Putnam Voyage)	−0.4
Securities Res. (Nat'l)	−0.5
Securities Res. (Dreyfus Growth)	−0.7
Gateway Advisors (Index plus)	−2.4
Willoughby Holin/Rentner (Gro.)	−3.2
DeJarnette Invst.	−3.4
Friess Assoc. (Brandywine)	−3.8
Friess Assoc.	−3.9
Birmingham Capital	−4.0
Cumberland Advisors	−4.9
Red Oak Advisors	−5.1
Edward C. Rorer	−6.7
Dreyfus Mgmt. (Large cap.)	−7.0
Forstmann Leff	−7.1
Webster Capital (Max. return)	−7.4
Institutional Capital	−7.5
Analytic Invst. (Hedged)	−7.5
Lehman Ark (Spec. sit.)	−7.8
Renaissance Invst.	−7.8
Forstman Leff (Agg. AA)	−8.0
NWQ Invst.	−8.2
Oak Hall Capital	−8.2
RCB Trust (Defensive)	−8.5
Thompson, Siegel & Walmsley	−8.6
Chemical Invst. (Real inc. gro.)	−8.7
Balch, Hardy & Scheinman	−8.7
Todd Invst.	−8.8
Cowen Asset (Inc. & growth)	−8.9
The Phoenix (Ind. growth)	−9.0
MPI Invst.	−9.2
Aiyer Invst.	−9.5
S&P 500	**−13.9**

1-year returns

	%
Securities Res. (Putnam Voyage)	20.6
Securities Res. (Kemper Summit)	18.5
Securities Res. (Nat'l)	12.7
Gateway Advisors (Index plus)	10.2
Friess Assoc. (Brandywine)	8.8
Friess Assoc.	8.2
Lehman Ark (Spec. sit.)	7.2
Securities Res. (Dreyfus Growth)	6.8
Dawson Samberg (Growth Pequot)	6.4
Red Oak Advisors	4.8
DeJarnette Invst.	4.4
Birmingham Capital	4.4
Dawson Samberg	1.5
Tukman Capital	0.4
Webster Capital (Max. return)	0.3
Equitable Capital (Sp. growth)	−0.4
Edward C. Rorer	−1.1
Frontier Capital (Trad. growth)	−1.4
Thompson, Siegel & Walmsley	−1.4
Cheswick Invst.	−1.7
Aetna Life (Large cap. growth)	−2.0
Cumberland Adivsors	−2.1
Caldwell & Orkin	−2.2
Lincoln Capital	−2.3
Heartland Capital (Growth)	−2.4
General American (Closed end)	−2.4
Scudder Stevens Clark (Qual.)	−2.6
First Nat'l Bank/Omaha (Value)	−2.7
Willoughby Holin/Rentner (Gro.)	−3.1
The Phoenix (Ind. growth)	−3.3
Cooke & Bieler	−3.3
Analytic Invst. (Hedged)	−3.3
S&P 500	**−9.4**

5-year returns

	%
C.H. Brown (Computer dir.)	26.0
Friess Assoc.	24.3
Quantitative Asset (En. index)	23.4
Cheswick Invst.	22.4
Oak Assoc. (Firestone)	21.8
Combined Capital (Qual. growth)	21.3
Friess Assoc. (Brandywine)	21.3
DeJarnette Invst.	21.1
Pacific Cent. (Emg. gro./sm. cap.)	20.3
Columbus Circle	20.0
Securities Res. (Dreyfus Growth)	20.0

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Fannie Mae appreciates NYCERS' and others' participation in this breakthrough program and would invite other pension funds all across the country to look into ways that Fannie Mae's community lending initiatives can work in their communities.

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Jurika & Voyles	19.8
Davis, Weaver & Mendel	19.8
Tukman Capital	19.7
Balch Hardy & Scheinman	19.6
Institutional Capital	19.5
Red Oak Advisors	19.4
Investment Res. (Max growth)	19.3
Lincoln Capital	18.9
Turner Neill Invst.	18.8
Beacon Invst.	18.8
Hutson Mgmt. (Growth)	18.8
Breau Capital	18.7
Lehman Ark (Spec. sit.)	18.4
Fayez Sarofim	18.3
Lynch & Mayer (Growth)	18.2
Analytic Invst. (Option growth)	18.1
S&P 500	**14.8**

10-year returns

	%
C.H. Brown (Computer dir.)	25.0
Securities Res. (Dreyfus Growth)	22.4
Balch, Hardy & Scheinman	21.9
Severn Assoc. (I)	21.6
GAMCO Investors (ERISA)	21.4
Friess Assoc.	21.3
Cadence Capital (Large cap.)	20.5
Roger Engemann & Assoc.	20.3
Capital Growth Mgmt.	19.9
Ashland Mgmt.	19.8
Caldwell & Orkin	19.8
Columbus Circle	19.7
Friess Assoc. (Brandywine)	19.6
Wilshire Asset (Sm. comp. value)	19.1
Red Oak Advisors	18.7
Tukman Capital	18.6
Hanson Invst.	18.6
S&P 500	**14.0**

Top decile PIPER+ special equity funds

3-month returns

	%
Feshbach Brothers (Southgate)	32.6
IDC Portfolio (Utility)	−0.7
W.H. Reaves (Utility/energy)	−2.7
Fidelity Mgmt. (High income)	−3.4
S&P 500	**−13.9**
Russell 2000	**−24.5**

1-year returns

	%
Feshbach Brothers (Southgate)	104.0
NFJ Invst. Group (Select)	12.6
IDC Portfolio (Utility)	1.9
W.H. Reaves (Utility/energy)	1.1
S&P 500	**−9.4**
Russell 2000	**−27.2**

5-year returns

	%
NFJ Invst. Group (Select)	41.3
Feshbach Brothers (Southgate)	40.7
W.H. Reaves (Utility/energy)	17.9
S&P 500	**14.8**
Russell 2000	**4.5**

10-year returns

	%
Cramer Rosenthal McGlynn	18.7
IDC Portfolio (Utility)	17.8
S&P 500	**14.0**
Russell 2000	**8.8**

Top half PIPER+ global equity funds

3-month returns

	%
Van Eck Assoc. (World trends)	−13.4
Burgess Capital	−13.5
Brinson Partners	−13.6
Capital Guardian (New pers. F)	−14.0
Burgess Capital (Comp.)	−14.3
Scudder Stevens & Clark	−15.7
James Capel Fund Mgmt.	−16.1
Warburg Invst. (SL3)	−16.2
Credit Suisse Asset	−16.4
Templeton Invst.	−16.5
Henderson Admin.	−16.6
IDS Int'l	−16.9
Lombard Odier	−17.0
G.T. Capital	−17.2
MSCI World	**−18.1**
FTA World	**−18.5**

1-year returns

	%
IDS Int'l	−1.4
Capital Guardian (New pers. F)	−4.9
Credit Suisse Asset	−5.1
Burgess Capital	−5.7
Van Eck Assoc. (World trends)	−7.9
Ivory & Sime Int'l (3)	−8.7
G.T. Capital	−8.7
Putnam Cos.	−9.2
Burgess Capital (Comp.)	−9.4
Scudder Stevens & Clark	−9.9
Warburg Invst. (SL3)	−10.2
Brinson Partners	−10.3
HD Int'l	−11.7
Marvin & Palmer Assoc.	−11.8
MSCI World	**−21.1**
FTA World	**−22.1**

5-year returns

	%
Burgess Capital	26.1
WorldInvest	23.5
Schroder Capital (X)	20.4
Brinson Partners	19.8
Ivory & Sime Int'l (3)	19.7
Warburg Invst. (SL3)	19.6
Stewart, Ivory & Co.	19.5
Scudder Stevens & Clark	19.4
Credit Suisse Asset	19.2
IDS Int'l	19.0
HD Int'l	18.5
Marvin & Palmer Assoc.	16.9
MSCI World	**16.5**
FTA World	**16.4**

10-year returns

	%
Burgess Capital (Comp.)	21.3
WorldInvest	17.0
Templeton Invst.	16.7
MSCI World	**14.4**

Top half PIPER+ international equity

3-month returns

	%
Wellington Trust (Emerging)	−11.4
Brinson Partners	−12.5
Henderson Admin. (EAFE)	−13.9
Boatmen's Trust (W)	−14.7
J.P. Morgan Invst.	−14.9
CIGNA Int'l Invst.	−14.9
Schroder Capital (Sm. cos.)	−15.5
Grantham Mayo v.Otterloo (Q)	−15.5
Baille Gifford (NCNB Texas)	−15.6
Lombard Odier (EAFE)	−15.8
PCM Int'l (Print 2)	−16.2
Templeton Invst	−16.5
Putnam Cos.	−16.5
Provident Capital (Low p/e)	−16.6
IDS Int'l (Active/passive)	−16.7
Ivory & Sime Int'l (5)	−16.8
Marvin & Palmer (Emerg. mkts.)	−16.9
UBS Philips & Drew (EAFE)	−16.9
Citicorp Invst.	−17.0
Fidelity Mgmt. (Overseas)	−17.0
Credit Suisse Asset (EAFE)	−17.1
SBC Portfolio (ERISA 1)	−17.3
Union Capital	−17.4
Marsh Cunningham	−17.6
Scudder Stevens & Clark	−17.7
Morgan Stanley (S. Butt/EAFE)	−17.7
Pictet Int'l (Pos. value const.)	−17.7
Rowe Price Fleming (For. disc.)	−17.7
G.T. Capital (EAFE)	−17.9
Schroder Capital (EAFE V)	−18.3
Marsh Cunningham (GE)	−18.3
Baring Int'l (1 EAFE)	−18.4
Grantham Mayo v.Otterloo (A)	−18.5
Matuschka Moser (EAFE)	−18.6
Baring Int'l (Active/passive)	−18.7
Rowe Price Fleming (Trp.)	−18.7
MSCI EAFE	**−21.1**
FTA Europe & Pacific	**−21.5**

1-year returns

	%
CIGNA Int'l Invst.	4.6
Schroder Capital (Sm. cos.)	3.5
Wellington Trust (Emerging)	−0.7
Baillie Gifford (NCNB Texas)	−1.3
Marvin & Palmer (Emerg. mkts.)	−1.8
Grantham May v.Otterloo (Q)	−2.2
Putnam Cos.	−4.3
Morgan Stanley (S. Butt/EAFE)	−4.7
Henderson Admin. (EAFE)	−5.0
Fidelity Mgmt. (Overseas)	−5.3
Credit Suisse Asset (EAFE)	−6.3
G.T. Capital (EAFE)	−7.4

HARRIS CONVERSATIONS FOR THE 90s:

THE DEREGULATION EXPERIENCE

A ROUNDTABLE DISCUSSION WITH ALFRED E. KAHN
and a select group of business leaders.

Known as the father of deregulation, Prof. Alfred E. Kahn is an internationally renowned economist.

Recognizing that a free exchange of ideas is crucial to shaping the way that businesses will compete in the coming decade, Harris Bank invited Prof. Kahn to explore the impact that deregulation has had–and will have–on the American economy.

The following discussion, one in a series of conversations with small groups of business leaders and today's most exciting thinkers, took place earlier this year:

The deregulation movement really goes back to 1958, when the FCC first permitted large industrial companies to provide their own private communications services.

In the last 15 years or so, we've experienced almost total deregulation of the airlines, the trucking industry, the railroads, cable television, buses, oil, and natural gas. Telecommunications and the electric and gas utilities have experienced some very dramatic changes in the same direction.

Most economists would agree, I think, that these deregulations have been a success, on the whole. They have demonstrated the superiority of the competitive market over government planning, by offering consumers lower prices and a greater variety of price and quality options, and by forcing producers to be more efficient and innovative.

On the other hand, the free market does not work perfectly, and there have been some problems and some disappointments.

Haven't the main failures of deregulation occurred in those areas where we've relied not on the market, but on the government?

Definitely. In the case of the S&Ls, the removal of the ceilings on the interest rates that they were permitted to pay necessitated, in turn, relaxation of the restrictions on their lending and investment activities. These were both forms of deregulation, and they surely helped create the problems we're now experiencing. But the other essential ingredient was government guarantee of their deposit liabilities, which made it possible for them to continue to attract deposits no matter how badly their loans and investments were turning out.

In other words, the fundamental problem was that we didn't deregulate all the way. Federal deposit insurance protected them from the discipline of the market. Or, if we were going to retain virtually complete government insurance of their deposits, the failure was one of government to perform the corresponding essential policing functions—to maintain minimum capital-to-deposit ratios and close down effectively insolvent institutions.

In another case, congestion and delays in air travel have increased because government has failed to respond to the upsurge in demand—a genuine success of deregulation—by expanding airport and air traffic control capacity.

Deregulation doesn't mean that you fire your police force, or your antitrust administration. Indeed, in important ways, it makes these policing responsibilities of government more important, not less.

Isn't all regulation inherently arbitrary?

I don't see how that can be true, as a general proposition, so long as there are legitimate social purposes that cannot be adequately served under simple laissez-faire.

The central requirement for sensible public policy is to distinguish regulations that suppress competition—which I think are rarely healthy—from regulations that supplement or preserve it, or make it work better, or serve social goals, like protection of the environment or public health and safety, that the competitive market simply cannot adequately serve.

Can you justify regulation for paternalistic reasons?

Individual choice is a cornerstone of our society. But can you really conceive of a humane society in which we place no limitations whatever on the freedom of individual consumers or workers to expose themselves to a threat to their health and safety? Or in which food and drugs are not honestly labelled?

Economic deregulation of trucking over the last 15 years, for example, has been very salutary. But that doesn't mean we shouldn't regulate the number of hours that truck drivers are on the road, and enforce those regulations with frequent random roadside inspections.

In a free society, we do tend to shun paternalism. But that surely does not preclude providing accurate information, or protection from drivers of unsafe trucks or from the emissions of coal-fired electric generating stations.

Is it fair to expose American producers to the competition of products from foreign countries whose governments do not impose environmental restrictions as stringent as ours?

It seems to me that if foreign governments produce degradation of our environment as well as their own, it would be proper for us to impose countervailing duties on their goods. That would give them the same incentives as our own companies have to protect our common air and water.

But what if the effect is to degrade only their environment? If perhaps because they are very poor, foreigners are willing to pay the price of dirtier air or water for a higher material standard of living, should we refuse to buy their goods?

The responsibility of our economic policies is to make available to the American public the widest range of products at the lowest cost—including environmental cost. If other people are willing to exploit themselves, or use up their soil, we do neither ourselves nor them a favor by putting taxes on their products.

This is the second in a series of Harris Conversations for the 90s. Other topical roundtables that can help our Harris customers be more competitive will follow.

To receive a longer version of this discussion with Alfred Kahn, call Donna Haywood at (312) 461-5554.

HARRIS BANK

Solid thinking for changing times.

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Stormy

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the fund is to diversify by property and by geography and to know your borrower. The fund has very low volatility and has a standard deviation of less than 3%. Pension buyers like that; there is also a very high cash-on-cash return as opposed to real estate equity. So liquidity is not a problem," he said.

Ellen Friedenberg, portfolio manager at Shearson Lehman Advisors, New York, said the two fixed-income funds are both managed in a similar fashion. She said the funds focus on "our knowledge of interest rates" and contain only U.S. government and agency instruments. She said the return objective is 1% to 3% over 90-Day Treasury bills and has an average maturity of 4.25 years.

For the 12 months, First National Bank of Maryland topped the PIPER fixed-income universe with 10.52%.

Transamerica Life Insurance Co., Los Angeles, was in top position for the five-year period with 12.89%. Following were Meridian Investment Co., Valley Forge, Pa., with 12.65%, and United Capital Management, Denver, 12.47%.

Transamerica, Meridian and United Capital also finished in the top five for the 10-year period.

The Shearson Lehman Brothers index was up 10% for five years and 12.41% for 10 years.

Ken Holmes, vice president at Meridian, said the $28 million employee benefit income fund contains high-quality U.S. government and agency instruments with an average maturity of about seven years. "The best performing bonds during those periods (five and ten years) were mortgage related," he said. The fund currently has a high percentage of government securities.

The Meridian fund "is an AA+ fund but at any given time three-fourths of the fund is AAA."

Lon Schreur, chief investment officer at United Capital, said the $70 million bond fund is a collective fund managed for United Bank of Denver, and for the past two years has had an average maturity of about two years. Between 1980 and 1986 the average maturity was 20 to 25 years, he said.

Mr. Schreur said the fund uses interest rate anticipation and now contains about 90% U.S. government securities.

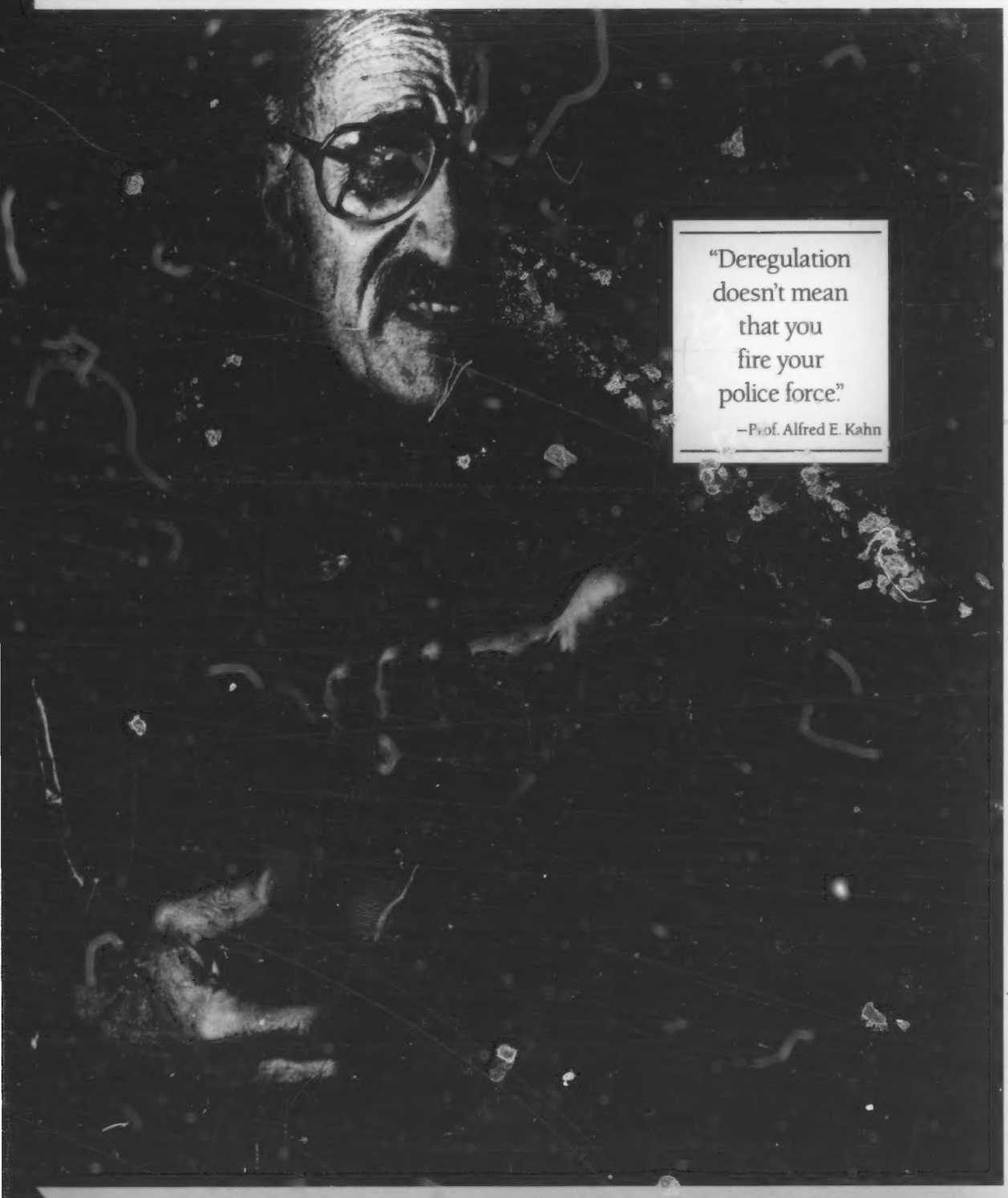
The Bankers Trust Co. GIC fund, with $40 million in total assets, finished the quarter with at 2.18%.

Jerry Chipkin, manager-guaranteed investments at Bankers Trust, said the bank's commingled GIC fund benefits from some of the "creative approaches" used in its separate account management.

In the PIPER+ fixed-income universe, American & European Investment Corp., Bethesda, Md., finished the quarter on top with 3.35%, followed by Income Research & Management, Boston, 2.71%; and Smith Breeden Associates, Boston, 2.53%.

For the one-year period, Smith Breeden topped the list with 11.02%.

Bridgewater Asset Management, Wilton, Conn., topped the five-year universe with 15.31%, while Smith Affiliated Capital, New York, topped the 10-year performance results with 16.02%.■



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IDS Int'l (Active/passive)	–8.1
Templeton Invst.	–8.1
Rowe Price Fleming (Discovery)	–8.1
Rowe Price Fleming (For. disc.)	–8.6
Grantham Mayo v.Otterloo (A)	–8.7
Scudder Stevens & Clark	–8.9
Dillon, Read Int'l (EAFE)	–9.6
Pictet Int'l (Pos. val. unconst.)	–9.8
Ivory & Sime Int'l (5)	–9.9
PCM Int'l (Print 2)	–10.4
Brinson Partners	–10.8
Rowe Price Fleming ((Trp.)	–11.0
Lombard Odier (EAFE)	–11.2
UBS Phillips & Drew (EAFE)	–11.2
SBC Portfolio (ERISA 1)	–11.3
Citicorp Invst.	–11.4
Wellington Trust	–11.5
Marsh Cunningham	–12.1
RCB Int'l	–12.1
Schroder Capital	–12.3
Globe Finlay (EAFE)	–12.5
Marsh Cunningham (Owens)	–13.1
Schroder Capital (EAFE V)	–13.2
J.P. Morgan Invst.	–13.3
MSCI EAFE	**–27.4**
FTA Europe & Pacific	**–26.5**

5-year returns

	%
Pictet Int'l (Pos. value unconst.)	45.6
Morgan Stanley (S. Butt/EAFE)	29.8
Marsh Cunningham	29.2
CIGNA Int'l Invst.	25.2
Provident Capital (Low p/e)	24.7
Templeton Invst.	24.1
Scudder Stevens & Clark	24.0
Grantham Mayo v.Otterloo (Q)	24.0
WorldInvest (IPEF)	23.5
Oeschle Int'l (Core)	23.3
Brinson Partners	23.1
Putnam Cos.	23.0
Baillie Gifford (NCNB Texas)	22.9
G.T. Capital (EAFE)	22.8
Rowe Price Fleming (For. disc.)	22.8
Bankers Trust	22.7
Henderson Admin. (EAFE)	22.6
Fidelity Mgmt. (Overseas)	22.5
HD Int'l	22.5
Globe Finlay (EAFE)	22.4
Rowe Price Fleming (Trp.)	21.9
Lombard Odier (EAFE)	21.8
Baring Int'l (Active/passive)	21.5
Baring Int'l (1 EAFE)	21.4
MSCI EAFE	**19.6**
FTA Europe & Pacific	**19.3**

10-year returns

	%
Marsh Cunningham	24.7
Pacific Financial	20.8
Oeschle Int'l (Core)	19.3
G.T. Capital (EAFE)	18.2
Putnam Cos.	17.9
Capital Guardian	17.6
Baring Int'l (1 EAFE)	17.6
Bankers Trust	17.3
MSCI EAFE	**16.1**

Top decile PIPER+ balanced/TAA funds

3-month returns

	%
Lazard Freres	2.7
Prudential Diversified (M 2)	2.5
Chicago Corp.	2.5
Crabbe Huson	2.4
Bartlett & Co.	2.3
Wilson, Kemp & Assoc.	2.2
Daniel S. Kampel Assoc.	2.2
William Blair	2.2
Fleet/Norstar Invst.	2.0
Penteq (Stocks/cash)	1.9
Kingsley Jennison McNulty & Morse	1.9
Ashfield & Co.	1.9
Federated Invst.	1.8
Merrill Lynch Asset (Value/mt. rate)	1.5
Duff & Phelps Invst. (Value)	1.4
Palm Beach Capital	1.2
Stein Roe & Farnham (Qual. gro.)	1.2
India Wharf (AC49 IRA rollover)	1.2
Mitchell Hutchins (Core growth)	1.0

1-year returns

	%
William Blair	11.5
Kingsly Jennison McNulty/Morse	11.4
Fleet/Norstar Invst.	10.5
Leylegian Invst.	10.2
EMP Capital Mgmt.	10.1
Palm Beach Capital	9.7
Ashfield & Co.	9.1

Continued on page 24

SB Partners, a Sentinel sponsored partnership, has refinanced:

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Real estate

Continued from page 17

With stores selling less, demand for space also could be off at bulk warehouses, although signs of rent "erosion" have not appeared in industrial warehouses, Mr. Saint-Pierre said.

Instead of appreciation, investors could be hit with depreciation that might put their 1990 returns below even 5%, said Mr. Saint-Pierre.

"I hate to say that, but it could happen."

But not all pension funds officers are unhappy with the performance of their real estate investments. "We have no complaints," said Neil Darling, manager and investment analyst with the $4 billion Chevron Corp. pension fund, San Francisco. The Chevron fund recently increased its real estate allocation to about 10% of total assets and plans no increase any time soon.

Though declining to give exact numbers, Mr. Darling said much of his performance is coming from the pension fund's separate account. The fund is roughly split between separate and commingled investments. He said his fund has not bought any unusual or riskier investments to get its satisfactory returns.

Prudential's Union Mortgage Account has avoided most of the problems affecting real estate by investing in straight mortgages. Tina Brownley, director of domestic marketing at Prudential Realty, said UMA is invested in office, retail and industrial mortgages ranging in size from $2 million to $40 million.

The John Hancock ForesTree I fund not only had the top second-quarter return for closed-end funds, but placed second for the year ended June 30 with a 22.2% return.

The PIPER figures are compiled by Rogers, Casey & Associates, Darien, Conn. ■

Top open-end funds (quarter ended June 30)

	%
Prudential (UMA)	3.2
John Hancock	2.8
Schroder	2.3
Chase Investors-CMB	2.0
Morgan Guaranty	1.9

Top closed-end funds (quarter ended June 30)

John Hancock (Forestree I)	11.9
State Street (AEW/State St. II)	5.7
FS Realty Partners (Paragan)	2.4
John Hancock (SERA I)	2.3
INVESCO (Inst'l Mtg. Fund)	2.3
JMB Inst'l (Group Trust III)	2.3
PM Realty (American West II)	2.3

Continued from page 23

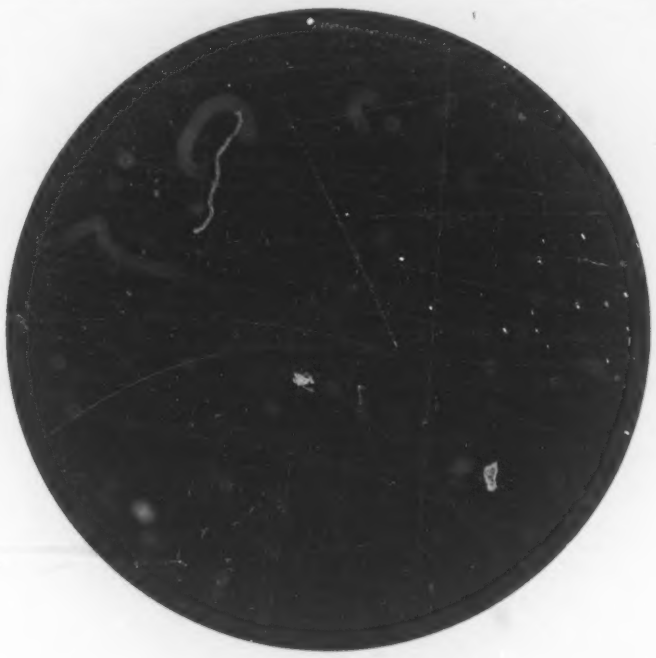
Duff & Phelps Invst. (Value)	9.0
Statistical Sciences (U.S.)	8.8
Merrill Lynch Asset (Value/int. rate)	8.6
Stein Roe & Farnham (Qual. gro.)	8.5
Daniel S. Kampel Assoc.	8.4
Wilson, Kemp & Assoc.	8.3
Portfolio Capital Mgmt.	8.0
Penteq (Stocks/cash)	8.0
Chicago Corp.	7.9
Mitchell Hutchins (Core growth)	7.8
Nat'l Asset Mgmt.	7.6
McCowan Assoc.	7.5

5-year returns

	%
Chancellor (Stockshift 200)	20.3
Leylegian Invst.	19.5
First Quadrant (Tactical returns)	19.1
Fox Asset Mgmt.	18.7
Statistical Sciences (U.S.)	18.6
Institutional Capital	18.5
Penteq (Stocks/cash)	17.9
TSA Capital (Strategic TAA)	17.2
Bankers Trust (TAA-active)	16.8
Beacon Capital (TAA)	16.8
Fayez Sarofim	16.4
Columbus Circle Investors	16.4
Turner Neill Invst.	16.3
Provident Invst. Counsel	16.3
Dolan Capital Mgmt.	16.2
Wagstaff, Lodefink & Assoc.	16.2
Fleet/Norstar Invst.	16.2

10-year returns

	%
First Quadrant (Tactical returns)	20.8
Kirr, Marbach	19.8
Penteq (Stocks/cash)	19.5
Tom Johnson Invst.	18.0
First Bank Milwaukee	17.8
Mellon Capital (3-way asset)	17.7
BRS Capital (TAA)	17.4
TSA Capital (Strategic TAA)	17.4
Chancellor (Assetshift 65)	17.2
Columbus Circle Investors	17.1
Caldwell & Orkin	17.1



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